Briefs

Livestock, Dairy & Poultry

Asia Crisis To Trim Prospects for U.S. Meat Exports

The economic turmoil in Asia is expected to trim U.S. meat export prospects in 1998. As Asian currencies depreciate and incomes fall, demand will contract in some key Asian markets and competition will increase from other countries whose currencies are also losing value against the U.S. dollar. At the same time, the relatively strong dollar is making the U.S. market more attractive to foreign meat exporters seeking alternatives to Asian markets. As a result, net exports of U.S. red meats are expected to shrink in 1998, adding to already abundant U.S. meat supplies.

The weakening of demand in Asian markets stalls growth in what has become a flourishing outlet for U.S. meat exports. Rising incomes and changing dietary preferences in developing countries, as well as negotiated reductions in trade barriers worldwide, have resulted in a rapid increase in world meat trade since the late 1980's.

The U.S., with a large domestic market, plentiful feedgrain supplies, and a well-developed meat infrastructure and marketing network, was poised to take advantage of the rising demand for meat. The U.S. beef sector benefited greatly from the growing international market for high-quality grain-fed beef, and the poultry sector found an outlet for lower priced dark meat products preferred by Asia, Mexico, and the Newly Independent States of the former Soviet Union.

In the period since the late 1980's, the strong export market induced a dramatic shift in the U.S. trade balance for meats. U.S. meat imports during the period declined slightly, while U.S. meat exports—led by poultry—rose rapidly. In 1992, the U.S. became a net meat exporter instead of a net importer, and net meat exports rose each year from 1992 to 1997. With negotiated reductions in trade barriers, the U.S. was able to match products to markets, increasing the exported proportion of domestic meat production from 3 percent in 1988 to 11 percent in 1997.

Since 1995, the growth of world meat trade has been slowed by several disease outbreaks (bovine spongiform encephalopathy or "mad cow" disease, foot-and-mouth disease, swine fever, and avian influenza), as well as food safety concerns (*E. coli* and listeria). The recent economic problems in Asia and the weakening currencies of traditional U.S. meat importers such as Canada are creating further challenges to trade growth.

U.S. *beef exports* are likely to decline 7 percent to about 1.99 billion pounds in 1998, in contrast to a 14-percent rise in 1997 from the previous year. While sales to Mexico are expected to increase, they will likely be offset by declining sales elsewhere, primarily to Japan and South Korea.

In Japan and Korea—two key markets for U.S. meat—Australian beef is becoming more attractive. As the U.S. dollar appreciated against Asian currencies between June and December 1997, Japan's yen declined 12 percent against the U.S. dollar but remained steady against the Australian dollar. In Korea, the won fell 67 percent against the U.S. dollar but only 49 percent against Australia's currency.

If the current trend in exchange rate movement continues into 1998, the U.S. could see an erosion of market share in Japan and Korea, especially since U.S. fed-cattle prices are expected to increase about 2 percent in 1998. Continued weakness in the Australian dollar against the yen could mitigate the price rises in Australia's short-fed and higher quality range-fed beef, which is preferred by the Japanese market. But the loss of U.S. market share will likely be less in Japan than in Korea, whose economy has been severely affected by the Asian events.

Korea is required to import at least 187,000 tons (product weight) of beef in accordance with its Uruguay Round commitments. In 1998, 40 percent of the imports will be through tenders, which can in effect steer demand toward products of a specific quality, making exchange rate movements less important. But the remaining 60 percent, imported under the Simultaneous Buy-Sell (SBS) system, will likely be driven by cost concerns.

Although the collapse of the won has made Korea's imports from all sources more costly, weakness in the Australian dollar against the U.S. dollar could make Australian beef more desirable. Given Korea's shortage of foreign exchange, tenders will likely seek the lowest value products, and purchases under the SBS system will be very price-sensitive. As a result, imports under both the tender and the SBS system will tend to favor Australia, causing U.S. export shares in Korea to fall significantly.

U.S. *beef imports*, after falling in the mid-1990's, rose 13 percent in 1997 and are expected to rise an additional 15 percent in 1998. As the liquidation phase of the U.S. cattle cycle ended, cow slaughter declined sharply, opening the U.S. processing beef market just as Asian currencies and those of Australia and New Zealand were devaluing against the U.S. dollar. This provides a marketing opportunity for Australia and New Zealand, the leading exporters of processing beef and by far the two largest suppliers to the U.S.

U.S. Exports of Red Meat To Decline From High Levels of 1997

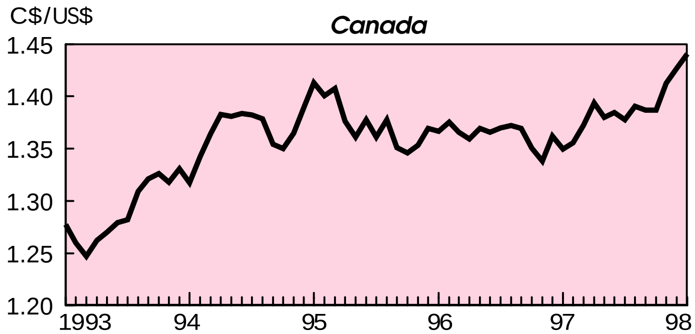
	Beef & veal	Pork	Broilers	Turkey	Other chicken
			Million lbs		
1993	1,275	446	1,966	244	56
1994	1,611	549	2,876	280	90
1995	1,821	787	3,894	348	99
1996	1,887	970	4,420	438	265
1997	2,136	1,044	4,664	598	384
1998	1,985	990	4,750	610	390

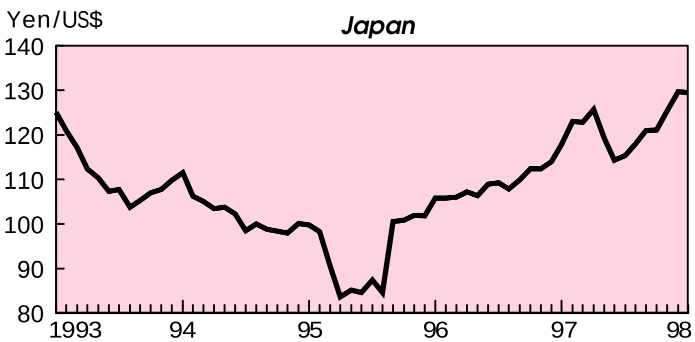
1997 preliminary; 1998 forecast.
Economic Research Service, USDA

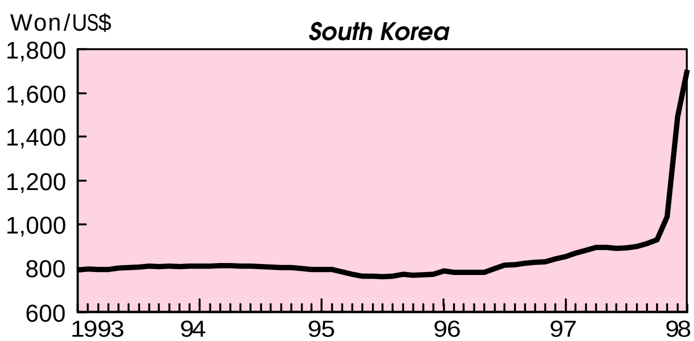
Briefs

As Currencies Lose Value Against U.S. Dollar . . .

Customers Pay More for U.S. Goods . . .

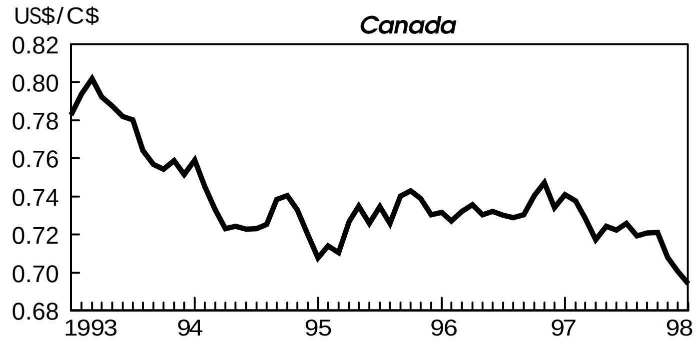


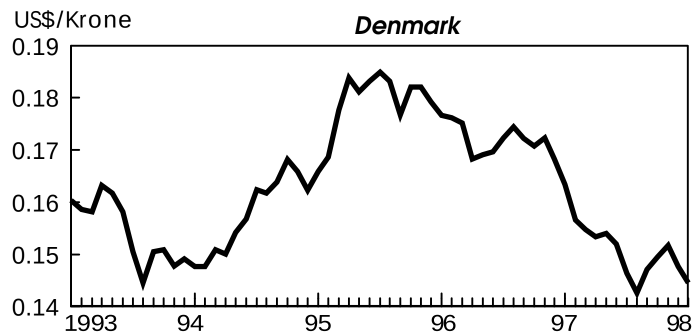


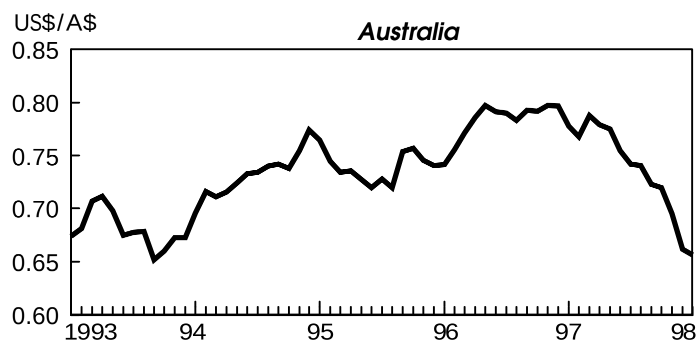


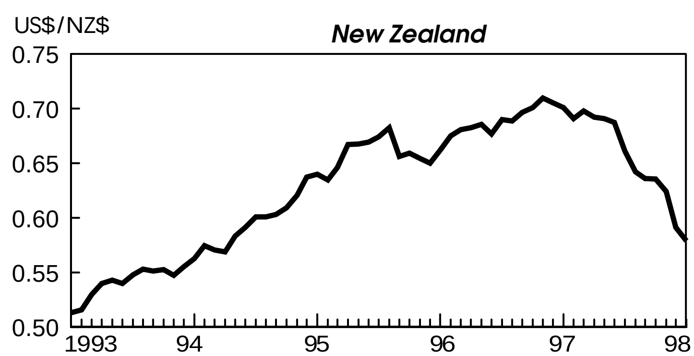
Economic Research Service, USDA

. . . and Competitors Undersell U.S. Exports









U.S. *exports of pork* are expected to decline in 1998 about 5 percent from 1997 levels, which were up about 8 percent over 1996. The projected 1998 decline in U.S. pork exports to 990 million pounds is based on declining sales to Japan and Korea.

In Korea, demand for imported pork will shrink due to a sharply depreciated currency, lower incomes, and increased domestic pork supplies as herds are liquidated. U.S. exports to Japan are also expected to be off in 1998, due primarily to competitively priced Korean pork products and a stronger U.S. dollar. For Japanese importers, increased Korean pork production and the dramatically depreciated won makes Korean fresh pork loins an attractive buy. However, lower U.S. domestic pork prices, especially for lower value products, will be attractive to Mexico and Russia, which may substitute pork for lower value poultry products.

Among the factors in last year's estimated rise in U.S. pork exports was the early-1997 outbreak of foot-and-mouth disease in Taiwan, which spread chaos in global pork markets. The outbreak devastated the Taiwanese industry and effectively eliminated a major pork exporter from the world market. With the Japanese Safeguard tariff (a WTO legal mechanism to protect domestic producers from excessive imports) slated for removal by midyear, the absence of Taiwan raised expectations for U.S. pork exports. In addition, the outbreak of swine fever in the Netherlands was expected to open up the German market for Denmark, a major competitor of the U.S. in the Japanese market.

However, the surge in U.S. exports to Japan failed to materialize. Taiwanese pork differs from U.S. product, offering several characteristics (darker meat color, tougher texture, and sweeter flavor) preferred by the Japanese consumer. Also, the rescission of the Safeguard mechanism removes the need for Japanese processors to maintain large stocks of pork; the ability to draw on those stocks reduced the need for imports in 1997.

U.S. *pork imports* are projected at 575 million pounds in 1998, down roughly 9 percent from 1997, which was 2 percent above 1996. Increased U.S. pork production and lower exports are factors in this year's drop in imports. In addition, the major U.S. suppliers—Canada and Denmark—are expected to focus on other markets. Denmark will likely help fill the shortfall in the European Union caused by outbreak of swine fever there. Canada will likely use its competitive exchange rate advantage over the U.S. to gain market share in Japan.

A lowering of the forecast for 1998 U.S. *poultry exports* since yearend 1997 is attributable to three events over the last several months. First is the continuing financial crisis in many Asian countries. While some severely affected countries, such as Indonesia and Thailand, are not major markets for U.S. poultry, South Korea is a key market for U.S. turkey, and Japan is one of the largest purchasers of U.S. poultry.

Second, the currencies of Thailand and Brazil have depreciated considerably against the dollar over the last several months, giving their products a price advantage over the U.S. Both Thailand and Brazil are major poultry exporters and compete with the U.S. in many markets.

Third is the outbreak of avian influenza in Hong Kong, a situation that is still being monitored. The potential for spread of a new strain of influenza that can be transmitted from live poultry to humans could have serious impacts on world poultry shipments. Hong Kong is the second-largest market for U.S. broilers and turkeys, and the largest market for other U.S. chicken products.

The forecast for broilers has been lowered since late 1997 by 100 million pounds, and expected exports for turkeys and other chickens have been reduced by 40 million pounds each. Total U.S. broiler exports for 1998 are now expected to be 4.75 billion pounds, only 2 percent above last year's exports.

The reduction from the yearend estimate for broiler exports is based mainly on lower expected shipments to Hong Kong and Japan. In Hong Kong, the continuing avian flu crisis has prompted consumers to curtail purchases of poultry products. This affects U.S. exports not only to Hong Kong, but also to China through Hong Kong. Hong Kong has temporarily banned imports of live birds from China, which has lowered prices in China and reduced China's need to import U.S. poultry parts. The reduction of shipments to Japan is expected to result from stronger competition from Thailand and Brazil.

While Asian markets are expected to decline or to show little growth in 1998, shipments to other markets are expected to continue growing. Exports to Russia, the Baltic States, and South Africa among others are expected to increase, although at a slower rate than in 1997. Even with higher export quantities, the value of exports may decline as strong competition among broiler exporters and the availability of low-cost U.S. pork products put downward pressure on prices.

Exports of turkey and turkey products are expected to total 610 million pounds in 1998, up 2 percent from 1997, in sharp contrast to the double-digit increases of the past 5 years. The lowered estimate is due mainly to expected smaller shipments to Hong Kong and Korea. Hong Kong is the second-largest market for U.S. turkey exports, and consumers have greatly reduced their consumption of turkey as well as broilers. With the devaluation of Korea's currency, that country is also expected to reduce imports of U.S. turkey products. Reductions in Asian markets are expected to be partially offset by higher shipments to Mexico, the largest U.S. market, as economic growth there fuels demand for poultry products.

Exports of mature chicken are now forecast at 390 million pounds in 1998, up only 2 percent from 1997, compared with a 45-percent increase the year before. While Asian markets are expected to be weak, growth in shipments to Mexico, Canada, and other markets is forecast to offset the decline in Asia.

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Briefs

Trade Policy

Mexico Taxes U.S. HFCS

The recent increase in U.S. high-fructose corn syrup (HFCS) exports to Mexico has raised concerns in the Mexican sugar industry. The price of sugar in Mexico is now sufficiently high that HFCS is an attractive substitute for many sweetener users.

In the U.S., almost all manufacturers who can utilize a liquid sugar (e.g., soft drink bottlers, confectioners) have switched to HFCS. A similar loss of sugar's market share to HFCS could occur in Mexico, particularly if the price of sugar remains relatively high. Mexico's soft drink makers are meeting a part of their growing sweetener needs with HFCS from both the U.S. and domestic producers.

When U.S. exports of HFCS to Mexico jumped from 60,000 tons (commercial weight, not dry basis) in 1995 to 184,000 tons in 1996, the Mexican Government initiated an anti-dumping investigation at the request of its National Sugar Industry Chamber, the association of Mexico's sugar producers. On June 24, 1997, Mexico issued a preliminary ruling and imposed temporary duties on U.S.-based companies exporting HFCS to Mexico. Meanwhile, Mexico investigated major U.S. firms for dumping of HFCS at below production costs in order to secure market share. In September 1997, the Office of the U.S. Trade Representative requested World Trade Organization consultations, which are ongoing.

On January 23, 1998, the Mexican Government announced the final results of the investigation, imposing anti-dumping tariffs for HFCS imports. The duties that went into effect January 24 range between $63.75 and $100.60 per metric ton for HFCS-42 and between $55 and $175 per metric ton for HFCS-55. The duties are applied to each firm individually. Even with the temporary anti-dumping duties in place since June, U.S. exports of HFCS to Mexico continued in 1997, with January-November exports totaling almost 180,000 tons, compared with 160,000 tons for the same period in 1996.

Trade reports allude to an agreement exacted by Mexican sugar mills from soft drink bottlers to limit their use of HFCS for the next 3 years, although the Mexican Chamber for the Sugar and Alcohol Industries (CNIAA) recently denied the reports. CNIAA indicates that their discussions with bottlers were only for the purpose of improving sugar production and distribution, as well as to establish clear rules on use of their products.

Two Mexican companies, both affiliated with U.S. companies, have recently built facilities to manufacture HFCS in Mexico and now produce an estimated 250,000 tons a year (compared with about 8 million tons in the U.S.). However, output may fall below this—Mexico is reportedly considering limits on corn imports in order to curb HFCS production.

Although Mexico was a net sugar importer in the early 1990's, Mexico began to export significant amounts in 1994/95. Mexico sugar exports are forecast to reach 750,000 tons (raw value) in 1997/98, compared with imports of 80,000 tons. Factors contributing to the exportable sugar supply include higher production in the wake of government deregulation and privatization in the early 1990's, decreased demand following the peso devaluation, and rising HFCS use in the last few years. In addition, the domestic price of sugarcane—which is controlled in part by government policy—has been raised several times in the last few years.

A sustained exportable sugar surplus could lead to higher U.S. imports from Mexico. NAFTA specifies that until September 30, 2000, Mexican low-duty sugar access to the U.S. is limited to the amount of Mexico's net surplus of sugar, up to 25,000 metric tons, raw value. (Mexico was given a NAFTA allocation of 25,000 tons for 1996/97 and also for 1997/98.) The total U.S. sugar import quota in 1997/98 is 1.605 million tons. From October 1, 2000, through September 30, 2008, Mexico's access will increase, and after October 1, 2008, the tariff on sugar will drop to zero, ushering in free trade with Mexico in sugar.

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March Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

March

4	*Broiler Hatchery*
	Dairy Products
	Egg Products
	Poultry Slaughter
6	*Cheddar Cheese Prices (8:30 a.m.)*
	Livestock Slaughter, Annual
11	*Broiler Hatchery*
12	*Crop Production (8:30 a.m.)*
13	*Cheddar Cheese Prices (8:30 a.m.)*
	Cattle on Feed
	Potato Stocks
	Turkey Hatchery
16	*Milk Production*
17	*Agricultural Land Values*
18	*Broiler Hatchery*
20	*Cheddar Cheese Prices (8:30 a.m.)*
	Cold Storage
	Livestock Slaughter
23	*Chickens and Eggs*
24	*Catfish Processing*
25	*Cotton Ginnings (8:30 a.m.)*
	Broiler Hatchery
	Hop Stocks
26	*Wool and Mohair*
27	*Cheddar Cheese Prices (8:30 a.m.)*
	Hogs and Pigs
30	*Agricultural Prices*
31	*Grain Stocks (8:30 a.m.)*
	Prospective Plantings (8:30 a.m.)
	Rice Stocks (8:30 a.m.)
	Peanut Stocks and Processing